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GOM TO ESTABLISH GUARANTY FUND FOR SMES

The GOM will establish a guaranty fund for financial support of small and medium enterprises (SMEs), thus implementing the measures from its new economic program. Prime Minister Vlado Buckovski, Ministers of Economy and Finance, Fatmir Besimi and Nikola Popovski, and the directors of the Macedonian Bank for Development Promotion (MBDP) and the Customs Administration, Voislav Bislimovski and Ilija Iloski jointly agreed the guaranty fund to be established within the MBDP.

According to Minister Besimi, the idea is to provide quality support to SMEs that need financing for certain projects, while allocation of guaranties will be based on strictly determined criteria.

MACEDONIA, SCG AGREE ON NEW FREE TRADE AGREEMENT

Macedonia and Serbia & Montenegro (SCG) agreed on June 2, on a new free trade agreement, which covers 100 percent of products instead of the current 97 percent. Macedonian Minister of Economy Fatmir Besimi and SCG Minister of International Economic Relations Predrag Ivanovic signed the document after the sixth session of Macedonia-SCG Committee.

"This is a great step for intensifying trade cooperation between the two countries. The agreement gives green light to all economies in the region to boost the trade," Besimi said after the signing ceremony. This is the first agreement, signed within the Stability Pact for Southeastern Europe, Ivanovic said, pointing out that Macedonia-SCG trade in the last year was at US\$ 444 million, rising 25 percent compared to the previous period.

ONE-STOP SHOP OPERATIONAL FROM 2006

The one-stop shop for registration of businesses will be ready by September 2005 and will become effective on January 1, 2006. After the meeting of the Steering Committee of Trade Register and One-Stop Shop Project, the Deputy Prime Minister Minco Jordanov said that the

largest part of transformation from paper registration to electronic form has been completed.

"The electronic form is a basis of the new system, which will alleviate registration of businesses and therefore improve the business climate," Jordanov said. Within 2 to 3 weeks of the application date, the companies will receive unique register number valid for all state institutions. He said that conversion of 32,000 companies has already been made and the data for the remaining companies are expected to be added by the end of August 2005.

RETAIL PRICE INDEX AND CONSUMER PRICE INDEX

Value of the consumer basket for food and beverages for four-member household in May 2005, calculated on a base of retail prices is 10,045 denars and compared with the previous month is higher by 1.9 percent. According to the State Statistical Office data the Retail Price Index in May 2005 year dropped by 0.1 percent on a monthly basis, while Consumer Price Index increased by 0.4 percent.

On annual basis, the Retail Price Index is higher by 2.1 percent, while the Consumer Price Index by 0.7 percent. In the period January-May 2005 compared to the same period of 2004 the Retail Price Index rose by 1.6 percent, while the Consumer Price Index remained flat.

WORLD BANK PROVIDES LOAN FOR REAL ESTATE CADASTRE

Building an efficient real estate cadastre and improvement of the business climate in Macedonia is the objective of the Project on Real Estate Cadastre and Registration, which will be financed by a World Bank loan worth Euro 10.3 million. World Bank Resident Representative to Macedonia, Sandra Bloemenkamp and the Minister of Finance Nikola Popovski signed the loan agreement on June 6. Furthermore, Swedish aid agency SIDA (Euro 3 million), Dutch Embassy (Euro 500,000) and the Macedonian Government (Euro 2 million) will also co-finance the project.

According to Popovski, this project should contribute to the improvement of the investment and business climate in the country. Bloemenkamp stated that insecurity in the real estate ownership was one of the main obstacles for investments in Macedonia, adding that 60-70 percent of real estate was not registered. The Director of State Authority for Geodesy, Bisera Jakimovska said that the

first effects of the projects would be felt in the first year. Its implementation is scheduled to begin in 2006 and to end in 2009.

MACEDONIA SHOULD USE STABILIZATION AND ASSOCIATION AGREEMENT TO BOLSTER TRADE WITH EU

Macedonian Vice Prime Minister Radmila Sekerinska said at the opening of the conference on Stabilization and Association Agreement and its Impact on the Business Sector in Skopje that Macedonia should be prepared for the fact that the situation within the EU should have an impact on the integration processes. "From the other hand, we should have in mind the fact that the enlargement is the most successful instrument of the EU's foreign policy. Thus, if the EU wants to be a successful actor, should not call off of the most successful instrument - the enlargement process", Sekerinska added.

She reminded that Macedonia, with or without a candidate status, would have entirely liberalized trade relations with the EU by 2011. "The EU is the biggest trading partner, participating with 60 percents in the total exports and 44 percent in the total imports. This is not enough and that's why we should use the privileges of the Stabilization and Association Agreement, and in the period from candidacy to membership to use the pre-accession funds", she said.

RUSSIA'S LUKOIL TO BUILD 40 GAS STATIONS IN MACEDONIA

Macedonian Prime Minister Vlado Buckovski and President of the Russian oil company Lukoil Vagit Alekperov on June 14, in St. Petersburg signed an agreement for cooperation and investment by Lukoil in Macedonia. Sergey Mironov, President of the Council of Russian Federation, welcomed the signing of the agreement.

"Lukoil is continuing its expansion in the Balkans. The memorandum we have signed requires fulfillment of certain obligations on our side. I want to thank the PM Vlado Buckovski because larger part of the points we have written in the memorandum are already realized. I hope that US\$ 50 million is a direct investment, we enter the Balkans and we will be representative of the Russian Federation in the region," Vagit Alekperov said.

Buckovski said that Macedonia is privileged to cooperate with the Russian Federation, which is traditionally good and friendly on political plan. "Our obligation is to provide locations for 40 gas stations in the first phase

of development of Lukoil Macedonia and Lukoil President is obliged to invest US\$ 50 million. Each gas station will have 14 employees, which means that more than 500 employees will be included in the first phase of Lukoil investment," Buckovski added.

GOM INCAPABLE TO RAISE PENSIONS

There is almost no chance to meet the demand of retired citizens for raising their pensions by eight percent, Minister of Labor and Social Policy Stevco Jakimovski said on June 14. "It would present a serious burden for the budget, considering the fact that launching of a new pension pillar, planned for January 1, 2006, will cost over one billion Denar, as 7.4 percent of the contributions for pension insurance will be allocated in private pension funds," Jakimovski said.

TURBO INSTITUTE TO CONSTRUCT 20 MINI HYDROELECTRIC PLANTS

Minister of Economy Fatmir Besimi and Director General of Slovene company Turbo Institute, Vladimir Kercan signed on June 15 a protocol pertaining to the project for construction of 20 small hydroelectric plans in Macedonia, worth Euro 100 million. Minister Besimi emphasized the significance of the project for the Macedonian energy sector. According to him, the project would increase investments in the country, and will provide business opportunities for Macedonian construction companies, taking into consideration that the protocol envisages 70 percent realization of the investment through domestic companies. "This is the path of our economic development, i.e. energetic development, since our country is currently undergoing reforms in this field", Besimi said.

Kercan stated that the plants' construction is a huge project both for Macedonia and for Turbo Institute, adding that this is not only an energy project, but also a developing one, beneficial for all. Construction should begin right after the signing of the agreement, while completion is expected in 20 months, with an annual production of 300 million KWh of electricity.

The Slovene company is to construct and maintain the hydroelectric plants, but will transfer them to the GOM after the 30-year concession period. The construction of the mini-plants should improve Macedonia's annual electricity production, which currently stands at 1.5 billion KWh.

GOVERNMENT TO ANNUL CUSTOMS DUTIES FOR AGRICULTURE PRODUCTS, TEXTILE, MACHINES

Macedonian Government will annul customs duties for import of agricultural and textile products, as well as machines in the upcoming six months, Prime Minister Vlado Buckovski, Ministers of Finance and Economy, Nikola Popovski and Fatmir Besimi, and Customs Administration director Ilija Iljoski decided on June 21. "Importers will benefit from this measure, and it is aimed at improving the business climate in the country", Iljoski said, adding that the decision would be implemented in 10 days.

Taking into consideration that the new Law on Customs would be implemented from January 1, 2006, Iljoski announced a new customs mitigation for imported raw and processed materials, which are built on products intended for export. The current customs rates in agriculture, textile and machines amount between 3-18 percent.

WB APPROVED EURO 8.8 MILLION LOAN FOR INSTITUTIONAL STRENGTHENING PROJECT

On June 21, the World Bank approved Euro 8.8 million loan for the Business Environment Reform and Institutional Strengthening Project (BERIS) for Macedonia. This project will assist the government in its efforts to improve the business environment and facilitate attracting foreign and domestic investments. Silvia Minotti, head of the World Bank team designing the project said that the project will target several constraints identified by the private sector and will work with the GOM to address them and improve the foundation for foreign and domestic investments.

TURKEY GRANTS US\$ 1 MILLION TO MACEDONIAN ARMY

Turkish military grant for the Macedonian Army (ARM) worth US\$ 1 million was the topic of discussion at the June 22 meeting between ARM Chief of Staff, Major-General Gjorgji Bojadziev and Turkish Army Deputy-Chief of Staff, General Ilker Basbug. The donation agreement was signed in Ankara on June 27. Bojadziev said that they have discussed the issue of educating senior officers in Turkey, as well as engagement of Turkish instructors for training of ARM special units.

Turkish General Basbug stated that Macedonia was one of the main promoters of stability in the Balkan region. "Turkish armed forces want ARM to reach the capabilities

of other NATO armies, thus accelerating the process of Macedonia's accession in the Alliance", Basbug pointed out. He announced that Turkey would continue to provide assistance to Macedonia in the military sector, which has amounted to US\$ 13 million so far.

INTERNATIONAL PENSION CONFERENCE

Two-day international conference on pension reform Navigating Balkan Pension Reform Challenges was held on June 23-24 in Skopje. It was organized by the USAID Financial Sector Strengthening Project in partnership with the Ministry of Labor and Social Policy, and it aimed at discussing complex pension reform issues and how they have been addressed in the Balkans and elsewhere.

Macedonia is in the final phase of the Pillar II, which is the compulsory pension insurance for all employees hired after January 1, 2003. Legislation for Pillar III, which is voluntary pension insurance, should be passed by 2006. Minister of Labor and Social Policy Stevco Jakimovski expects that the pension reform will create increased revenues from pension contributions and a stable pension system.

FINAL ROUND OF NEGOTIATIONS WITH WORLD BANK ON THE NEW PROGRAM

World Bank program, amounting between US\$ 25-30 million annually, aimed at supporting reforms in judiciary, health, labor market and business climate should be concluded in the following two weeks, head of World Bank Mission, Bruce Courtney said on June 27 regarding the Programmatic Development Policy Loan (PDPL). He added that the negotiations should be closed in September, followed by the agreement's approval of World Bank Board of Directors in October.

"We have jointly prepared a comprehensive three-year project, with the first year nearing its completion, while the project continues in the upcoming two years", Courtney stated. Furthermore, he stressed that numerous reforms have been implemented in the previous 6-7 months, with a review scheduled at the end of July. The PDPL is aimed at supporting mid-term policies and structural reforms for increasing economic development and preparing for EU membership.

MACEDONIA, KOSOVO REACH AGREEMENT ON CUSTOMS DUTIES

Macedonian oil, eggs, onion, cabbage, paprika and wine will be subject to customs duties in Kosovo starting from July 1, 2005, Vice Prime Minister Minco Jordanov and Minister of Economy Fatmir Besimi informed on June 29. These industrial and agricultural products will be subject to customs duties in a period of 2.5 years, followed by their exemption on January 1, 2008. The customs duty will be 8 percent until the end of 2005, and will decrease to 7 percent in 2006, and 6 percent in 2007.

According to the agreement, which should be officially signed within a week or two, Kosovo products will enter into Macedonia without customs duties, due to the Kosovo's trade deficit. As Minister Besimi said, the introduction of customs duties on agricultural products did not jeopardize the interests of Macedonian farmers. Jordanov informed that the free trade principle was applied in the agreement, which was an interim stage until the beginning of the negotiations for signing a multilateral agreement in Southeast Europe for regional trade liberalization. Kosovo has signed similar agreement with Albania, and has ongoing negotiations with Bosnia & Herzegovina and Croatia.